Energy: natural gas, security of supply

2002/0220(CNS) - 13/11/2008 - Follow-up document

The Commission presents a Communication on the Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply.

Security of supply, as one of the three pillars of the energy policy for Europe defined by the European Council in March 2007, is more and more seen as a public good deserving a closer attention from the European Union. Natural gas is currently the second most important fuel in the EU's energy mix, representing roughly a quarter of EU gross inland consumption. It is widely used in various sectors, such as power generation, district heating, households and industry.

The Commission considers that the **EU needs to take a step forward on security of gas supply** and solidarity. While crises may be rare, they can have very high economic and social impacts. Therefore the EU needs to be prepared to tackle security of supply in an effective way. **Today's Community mechanism** – although fortunately not yet needed – **is not sufficient** to provide a timely response to a gas supply crisis which goes beyond the level that national measures can mitigate. Further, today's **lack of transparency** prevents the assessment of the real-time gas supply situation and potential responses within the EU.

The purpose of this Communication is to examine and discuss proposals on how the EU could approach security of gas supply more effectively in the current and future situation and which elements of the current EU policy on gas security supply should be further developed. It is suggested that **Directive 2004 /67/EC should be revised** along the lines proposed in this communication.

1) Scope and better implementation of security of supply standards at national level: it should be carefully examined whether the mandatory scope of the security of supply standards should be extended beyond households. Especially where electricity production from gas is significant, in the absence of adequate alternative measures (fuel switching, storage of alternative fuel or sufficient spare capacity), supplies to power plants should be ensured also under extreme events.

The Commission should examine with the Member States and the industry whether the differences between the definition of roles and responsibilities of market players imply a market distortion or a hindrance to cross-border cooperation in case of crises. A thorough analysis should be carried out for each country to see: i) whether the individually defined security of supply standards are proportionate to the risks incurred; ii) whether the differences impact the competition or constitute a hindrance to solidarity agreements.

The following questions should be examined: are there other events which should be considered beyond partial disruption and extreme winter conditions? What should be the minimum level of short-term security of supply that every Member State individually has to be prepared for? How should it be defined? This Commission makes suggestions to these questions.

2) Community mechanism and solidarity: the gas markets, dominated (90%) by pipeline gas, have a **mainly regional character**: several countries are linked along the same major pipeline infrastructure. Therefore these Member States usually depend on each other's actions and consumption. If for example there is a shortfall of supplies on a specific pipeline, Member States should co-operate in the allocation of the available supplies, reduction of consumption, increase in withdrawal from storage etc. Within the EU, gas is physically transported only through pipelines therefore regional coordination could provide a timely response which EU-level actions might be unable to do. However, for the same reason, a supply shortage

is most likely to affect a whole region, which might not be able to cope with it alone. Therefore a further step could be introduced to the levels of intervention: (1) industry, (2) Member States, (3) regional, (4) Community level. If the supply disruption cannot be managed adequately at regional level, the region would have the right to ask for Community assistance.

Pre-defined actions would provide a clear, foreseeable and timely reaction. The defined actions might include: a) a common declaration of an emergency situation, b) allocation of available supplies and infrastructure capacity among the affected countries, c) co-ordinated dispatching, d) activation of emergency measures in unaffected or less affected states in order to increase the amount of gas available to the affected markets.

This approach should lead to the definition of an effective **EU Emergency Plan**, including a European emergency scale, which will specify the nominal level of gas market operation, prevention mechanisms, as well as different pre-emergency and emergency levels defined by disruption volume and by the economic impact. The Community response would be a de facto **solidarity action**. Solidarity is by no means charity and adequate compensation mechanisms would have to be worked out. Each Member State should comply with the defined security of supply standards.

3) Transparency: adequate reporting obligations should be proposed, in order to increase transparency and assess the EU security of supply situation. The measures proposed in the third package on internal energy market to increase transparency should be taken into account: assessment of future supply and demand by the European network of TSOs, the obligation to publish aggregated levels of supply and demand, gas in stock and use of gas storage and LNG facilities.

4) The security of supply margin: during a supply shortfall, a gas supply must be guaranteed to households and other entities protected by the Directive. Two elements are needed: a) increase the **available gas** for the consumers protected by the Directive and b) dispose of **sufficient infrastructure** to transport the gas to these customers.

This excess gas and capacities could be called the "supply security margin". The extent of this margin could be derived directly from the re-defined national security of supply standards. These amounts could then be expressed as a percentage of average consumption. Spare capacity and "excess gas" should match such an indicator.

5) Strategic storage: strategic gas stocks refer to the stockpiling of natural gas which is destined to be used exclusively in emergency situations, hence inaccessible under normal market conditions. Stockpiling of natural gas is expensive. Member States have different levels of exposure to risks and hence different gas supply security requirements. Strategic stocks might be the preferable or only midterm solution for countries with single-source dependence and high share of uninterruptible demand.

The Commission **does not propose an EU-level obligation** as regards strategic stocks. If a Member State chooses this option as a national measure, the use of strategic stocks has to be carefully regulated to avoid market distortions: strategic stocks should not be released in non crisis situations to influence the value of storage and other flexibility instruments that are developed under competitive market conditions. **Development of commercial storages should be encouraged**.

Long-term strategy: although it goes beyond the scope of this Directive, the long-term EU strategy on gas and on energy supply security, as discussed in the Strategic Energy Review, remains crucial.

In order to reduce the risk and the effects of short-term gas supply shocks in the future, the EU has to continue striving for energy efficiency, a well-functioning, well-interconnected internal energy market, innovation and technological developments, diversification of the energy mix, supplies and routes, and effective international frameworks and relations. Transparency and coordination between Member States'

actions towards third countries should contribute to strengthen a single voice on energy topics at international level.